

AMENDED IN ASSEMBLY MAY 3, 2007
AMENDED IN ASSEMBLY MARCH 29, 2007
CALIFORNIA LEGISLATURE—2007—08 REGULAR SESSION

ASSEMBLY BILL

No. 897

Introduced by Assembly Member Houston

February 22, 2007

An act to ~~add Section 23701m to~~ amend Section 23701d of the Revenue and Taxation Code, relating to taxation.

LEGISLATIVE COUNSEL'S DIGEST

AB 897, as amended, Houston. Taxation: tax-exempt organizations: administration.

The Corporation Tax Law, in modified conformity to federal income tax laws, exempts various types of organizations from the taxes imposed by that law, provided that those organizations satisfy certain specified requirements, including a requirement to apply for tax-exempt status with, and be approved by, the Franchise Tax Board and to pay a filing fee, as provided.

This bill would delete that requirement as it applies to certain specified organizations, and instead, would provide that an organization, as defined, shall be exempt from state taxes, as provided, upon its submission to the Franchise Tax Board of a copy of the notification issued by the Internal Revenue Service approving the organization's tax-exempt status pursuant to Section 501(c)(3) of the Internal Revenue Code, as specified.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 23701d of the Revenue and Taxation Code
2 is amended to read:

3 23701d. (a) ~~Corporations, community chests or trusts, A~~
4 ~~corporation, community chest or trust,~~ organized and operated
5 exclusively for religious, charitable, scientific, testing for public
6 safety, literary, or educational purposes, or to foster national or
7 international amateur sports competition (but only if no part of its
8 activities involved the provision of athletic facilities or equipment),
9 or for the prevention of cruelty to children or animals, no part of
10 the net earnings of which inures to the benefit of any private
11 shareholder or individual, no substantial part of the activities of
12 which is carrying on propaganda or otherwise attempting to
13 influence legislation, (except as otherwise provided in Section
14 23704.5), and which does not participate in, or intervene in
15 (including the publishing or distribution of statements), any
16 political campaign on behalf of (or in opposition to) any candidate
17 for public office. An organization is not organized exclusively for
18 exempt purposes listed above unless its assets are irrevocably
19 dedicated to one or more purposes listed in this section. Dedication
20 of assets requires that in the event of dissolution of an organization
21 or the impossibility of performing the specific organizational
22 purposes the assets would continue to be devoted to exempt
23 purposes. Assets shall be deemed irrevocably dedicated to exempt
24 purposes if the articles of organization provide that upon
25 dissolution the assets will be distributed to an organization which
26 is exempt under this section or Section 501(c)(3) of the Internal
27 Revenue Code or to the federal government, or to a state or local
28 government for public purposes; or by a provision in the articles
29 of organization, satisfactory to the Franchise Tax Board; that the
30 property will be distributed in trust for exempt purposes; or by
31 establishing that the assets are irrevocably dedicated to exempt
32 purposes by operation of law. The irrevocable dedication
33 requirement shall not be a sole basis for revocation of an exempt
34 determination made by the Franchise Tax Board prior to the
35 effective date of this amendment.

36 (b) (1) In the case of a qualified amateur sports organization—

1 (A) The requirement of subdivision (a) that no part of its
2 activities involve the provision of athletic facilities or equipment
3 shall not apply.

4 (B) That organization shall not fail to meet the requirements of
5 subdivision (a) merely because its membership is local or regional
6 in nature.

7 (2) For purposes of this subdivision, “qualified amateur sports
8 organization” means any organization organized and operated
9 exclusively to foster national or international amateur sports
10 competition if that organization is also organized and operated
11 primarily to conduct national or international competition in sports
12 or to support and develop amateur athletes for national or
13 international competition in sports.

14 (c) (1) *Notwithstanding subdivisions (a), (b), and (c) of Section
15 23701, an organization organized and operated for nonprofit
16 purposes in accordance with this section shall be exempt from
17 taxes imposed by this part, except as provided in this article or in
18 Article 2 (commencing with Section 23731), upon its submission
19 to the Franchise Tax Board of a copy of the notification issued by
20 the Internal Revenue Service approving the organization’s
21 tax-exempt status pursuant to Section 501(c)(3) of the Internal
22 Revenue Code.*

23 (2) *If, for federal income tax purposes, an organization’s
24 tax-exempt status under Section 501(c)(3) of the Internal Revenue
25 Code is revoked, the organization shall notify the Franchise Tax
26 Board of the revocation, in the form and manner prescribed by
27 the Franchise Tax Board. Upon notification, the board shall revoke
28 the organization’s tax-exempt status for state income tax purposes.*

29 (3) *This subdivision shall not be construed to prevent the
30 Franchise Tax Board from revoking the exemption of an
31 organization that is not organized or operated in accordance with
32 this chapter or Section 501(c)(3) of the Internal Revenue Code.*

33 (c) *The Franchise Tax Board may prescribe rules and
34 regulations to implement this section.*

35 ~~SECTION 1. Section 23701m is added to the Revenue and
36 Taxation Code, to read:~~

37 ~~23701m. (a) (1) Notwithstanding subdivisions (a), (b), and
38 (c) of Section 23701, an organization organized and operated for
39 nonprofit purposes in accordance with the provisions of Section
40 23701d shall be exempt from taxes imposed by this part, except~~

1 as provided in this article or in Article 2 (commencing with Section
2 23731), upon its submission to the Franchise Tax Board of a copy
3 of the notification issued by the Internal Revenue Service
4 approving the organization's tax-exempt status pursuant to Section
5 501(e)(3) of the Internal Revenue Code.

6 (2) ~~If, for federal income tax purposes, an organization's~~
7 ~~tax-exempt status under Section 501(e)(3) of the Internal Revenue~~
8 ~~Code is revoked, the organization shall notify the Franchise Tax~~
9 ~~Board of the revocation, in the form and manner prescribed by the~~
10 ~~board. Upon notification, the board shall rescind the organization's~~
11 ~~tax-exempt status for state income tax purposes.~~

12 (b) ~~This section shall not be construed to prevent the Franchise~~
13 ~~Tax Board from revoking the exemption of an organization that~~
14 ~~is not operated in accordance with this chapter or Section 501(e)(3)~~
15 ~~of the Internal Revenue Code.~~

16 (e) ~~The Franchise Tax Board may prescribe rules and regulations~~
17 ~~to implement this section.~~